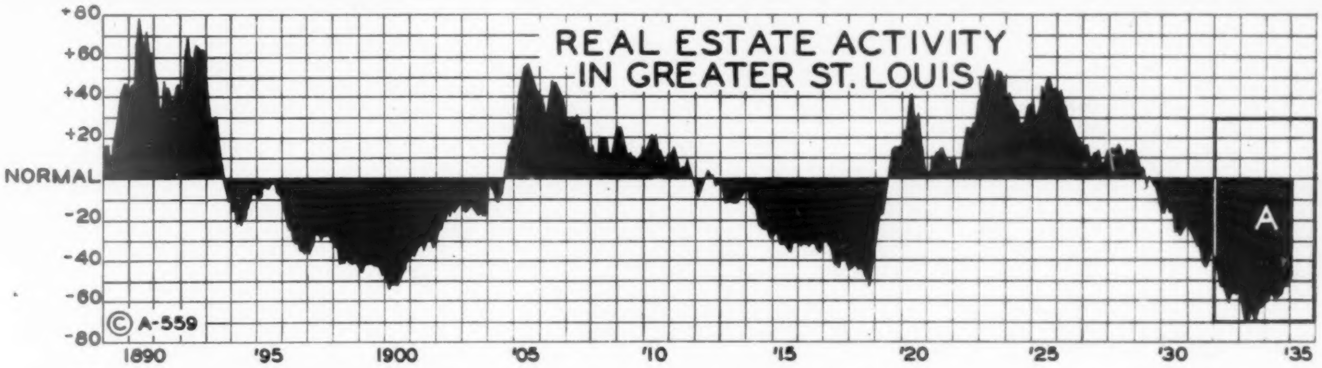
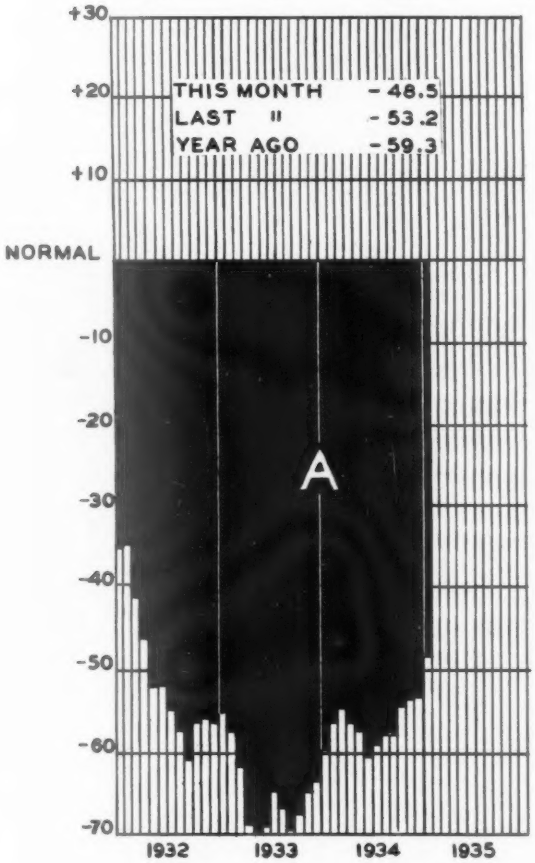
FEBRUARY, 1935

The Real Estate ANALYST





THE real estate figures for January collected in thirty major metropolitan cities by Real Estate Analysts, Inc., would indicate that the basic improvement in real estate is continuing. Our barometers of sales in most of these cities are showing gains far greater than seasonal. The average of all cities on which we have records of sales shows a most marked improvement during the past ninety days.

Residential rentals are computed weekly in these thirty cities on the basis of the average rent per month per room. Here, too, our composite barometers of both residences and apartments are showing accelerated gains in the last thirty days. Increased rentals with decreased vacancies automatically bring higher values.

Foreclosures are showing an increase at present due to the inactivity of the HOLC. A high foreclosure rate naturally has a retarding effect on the rapidity with which values rise, as much foreclosed property is thrown on a disinterested market at distress prices. This is prolonging the present buying period. In all probability steps will be taken by Congress to renew the activities of the HOLC. As foreclosures then recede, values will continue to rise. As stated in our January issue, we are expecting high foreclosures during the next few months. This is a reason to buy real estate--not to sell it.

New mortgage financing has suffered a slight setback nationally during the last few months, but we think this, also, is because of the temporary withdrawal of the HOLC. The uncertainty which has been current about the validity of the gold clause has probably had some dampening effect, but we believe this had less effect up to the last few weeks than generally supposed. Since the first of February it has been of major importance.

Building of new residential units is still offering tremendous resistance to all efforts at stimulation. Each of the last three months has shown a

drop on our barometer, which is adjusted for seasonal variation. There is only one thing which can cause a building boom, and that is a rise in rentals and values to a point where new buildings, in relation to buildings already on the market, are worth what they cost. A building boom can never be brought about by the announced government policy of building slum clearance projects to rent for an amount insufficient to pay a return on the entire investment. Higher rentals, not lower, are necessary if the building trades are to be reemployed at current construction costs.

The Saint Louis real estate figures, which are, of course, available before complete national figures can be collected, look quite encouraging for the month of January with the exception of the lack of absorption in vacancy. Rentals increased, real estate activity increased, the marriage rate dropped slightly, and new building showed no change. Vacancy for the last two months has been slightly higher than it was late last fall. We anticipated this in our forecast a year ago when we said that absorption of vacancy would be very rapid during the first part of 1934 and that it would slow down considerably by the end of the year. We anticipate no marked improvement in vacancy before spring.

THE EFFECT OF THE GOLD DECISION ON REAL ESTATE

At the time this issue of the Real Estate Analyst goes to press the Supreme Court has not yet announced its decision on the constitutionality of the act of Congress invalidating the gold clause.

We doubt whether any group of judges would consider this question for more than a few minutes before declaring it unconstitutional were it not for the emergency existing.

Clearly the gold clause in contracts past, present, or future is detrimental to the public good. It cannot be exercised literally as there is insufficient gold in the world to pay even a small portion of those contracts which specify payment in gold coin of the present standard of weight and fineness.

The question before the Court is whether a person holding such a contract can collect an amount in devalued dollars equal to the gold value of the old dollars- in other words, $1.69 in our present dollars for each dollar in the contract prior to devaluation.

It is hard to guess what the Supreme Court decision will be. The effect on real estate of either decision, as far as we can foresee it, would be as follows:

I. If the act is held constitutional, recovery of real estate will continue; foreclosures will drop after the next few months, rentals and values will continue to rise. Eventual levels of rentals and values will exceed the levels of the last boom. New building will start just as soon as values rise to the point where it is just about as cheap to erect a new building as to buy one already built. This recovery of real estate will liquefy emergency loans which the government has made through its various agencies, and these loans will be repaid.

II. If the act is declared unconstitutional, recovery will receive a very real setback. If the declaring of the act unconstitutional meant that there was no other alternative except restoring the dollar to its former gold content, real estate would still have far to go before recovery could be expected. In our opinion rentals and values would not rise by a sufficient amount to restore equities in properties now pledged to the government on HOLC loans. Much property financed with private loans would have to go through foreclosure. New building would not start in any volume for many years as buildings already built would be too low in price to make competition from new building possible. General commodity prices would lose much of the gain they have made during the past two years. But we believe that an adverse decision would not necessarily mean that the United States would have to return to the old dollar with the drastic liquidation that would involve. In the February, 1933 Real Estate Analyst, page 119, we pointed out the possibility of a collapse of our whole fiscal system, with revaluation and the invalidating of the gold clause. The following month the banks collapsed, and several months later we officially left the gold standard. In January, 1934 we revalued on a 59¢ basis and invalidated the gold clause. We pointed out in that forecast that the gold clause could be invalidated constitutionally by placing a special tax on all instruments containing it. This is the method which was used to retire state bank currency over a hundred years ago. There are probably many other ways of accomplishing the same purpose. The seriousness of the situation will bring the remedy.

ARE REAL ESTATE CYCLES NATIONAL OR LOCAL ?

REAL estate is fixed in location. It is, therefore, subject to local influences to a greater extent than any other commodity. It cannot be taken to a favorable market. A surplus of apartments in New York cannot be disposed of by shipping to a city in which a shortage exists. The surplus will continue until local demand has absorbed it, and a shortage can be filled only by building new buildings at the place where they are needed.

These factors would cause one to believe that real estate cycles are local, and so we thought when we first started studying them many years ago. When we found real estate activity in Saint Louis increasing very rapidly in 1904, we ascribed it to the influence of the World's Fair, which was held that year in Saint Louis. However, when we found the same rapid increase in activity at approximately the same time in Philadelphia, in New England, and on the West Coast, we started doubting the logic of our earlier conclusions. Before the first issue of the Real Estate Analyst was published, we had arrived at the conclusion that basic cycles of real estate are national and all of our discussions have so stated.

Until recently, however, our opinion was based on data from a few scattered cities where rough figures of real estate activity over a period of years was obtainable, generally in the form of annual totals of instruments of all sorts recorded. During the past few years, however, Real Estate Analysts,Inc., has been carefully accumulating more accurate measures of activity on a monthly basis for many of the principal cities. We are presenting in this issue on pages 364-366 a chart of real estate activity on the West Coast* from 1868 to the present. This chart is the first of a series we are constructing which when finished will show in an identical manner real estate activity each month in each region of the United States. We are also working on regional barometers of residential rentals, residential vacancies, new financing, and foreclosures. These charts and studies will appear in the Real Estate Analyst exclusively as rapidly as they can be completed.

The comparison of real estate cycles on the West Coast and in Greater Saint Louis is quite interesting to anyone who would endeavor to forecast the trends in real estate for the next few years. Theoretically, there are no two charts which should show greater divergence. In 1868, the first year on both charts, Saint Louis was a thriving city of more than three hundred and fifty thousand people, largely of German and Bohemian descent. It was conservative then as it is now. On the other hand, all of the West Coast in 1868 was a very sparsely settled area. California had been admitted as a state in 1850 and Oregon in 1859, but Washington remained a territory until 1889. The characteristics of the "Forty-niners" in California were quite different from those of staid Saint Louisans.

Then, too, in this early period the West Coast was almost isolated from the rest of the country. It was not possible then to leave Saint Louis at 10:20 p.m. by plane and arrive in Los Angeles at 9:25 the next morning. Repercussions of economic crises in the East did not disturb Coast markets three hours before they occurred in New York (difference in Eastern and Pacific time) as they sometimes do now.

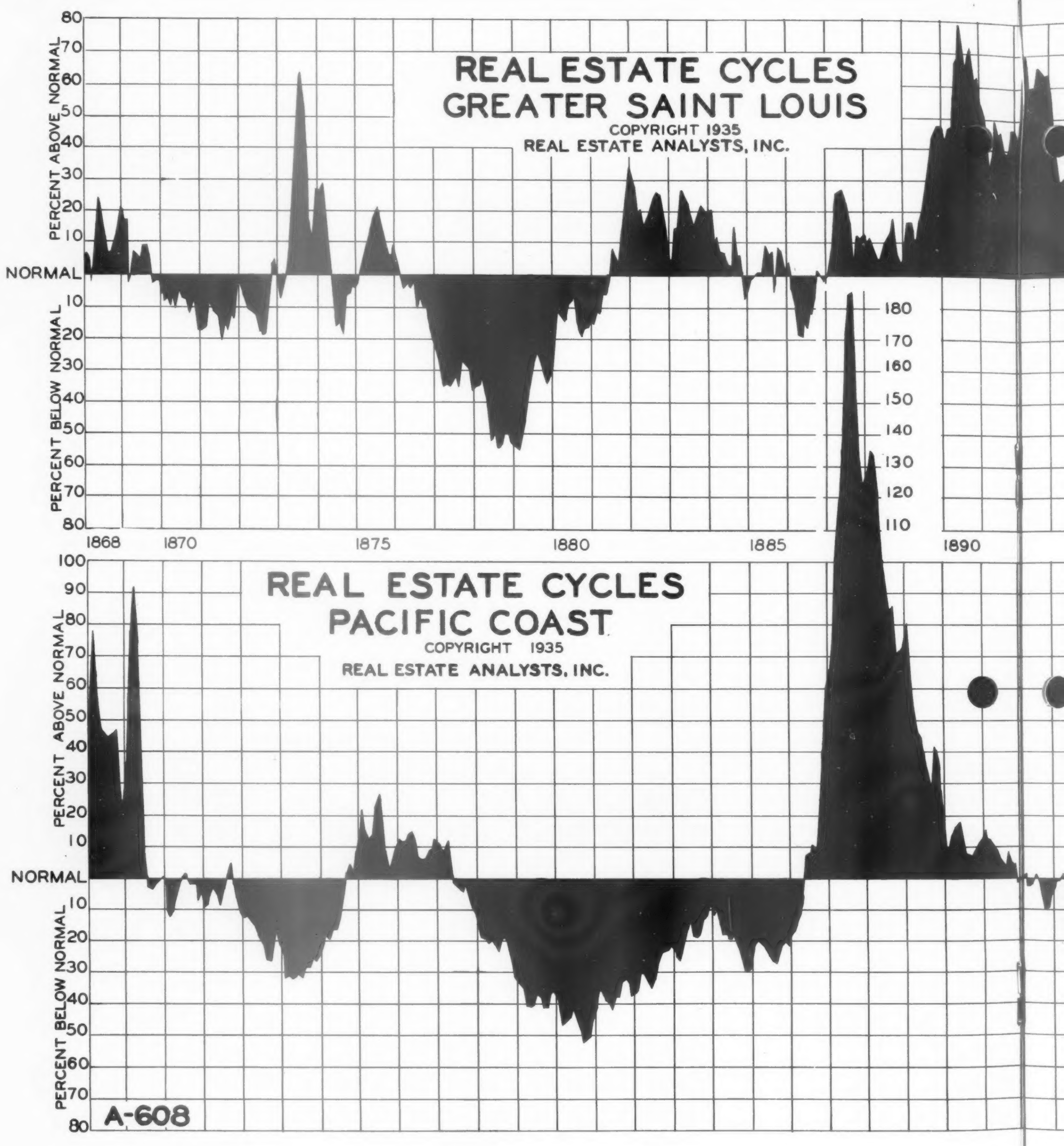
These facts, we believe, explain the differences which occurred in the two cycles, particularly in the earlier years, although even in these years there are some striking similarities.

The chief differences and the probable reasons for them are listed below:

I. The boom on the West Coast in 1868 and 1869 was probably more pronounced because of the increase in the price of gold per ounce during the greenback inflation. Gold rose from $20.67 an ounce in 1862 to more than $41 an ounce in 1864: then started a gradual decline. Since a great deal of gold was produced in this period in California, the increased value of its gold increased local prosperity.

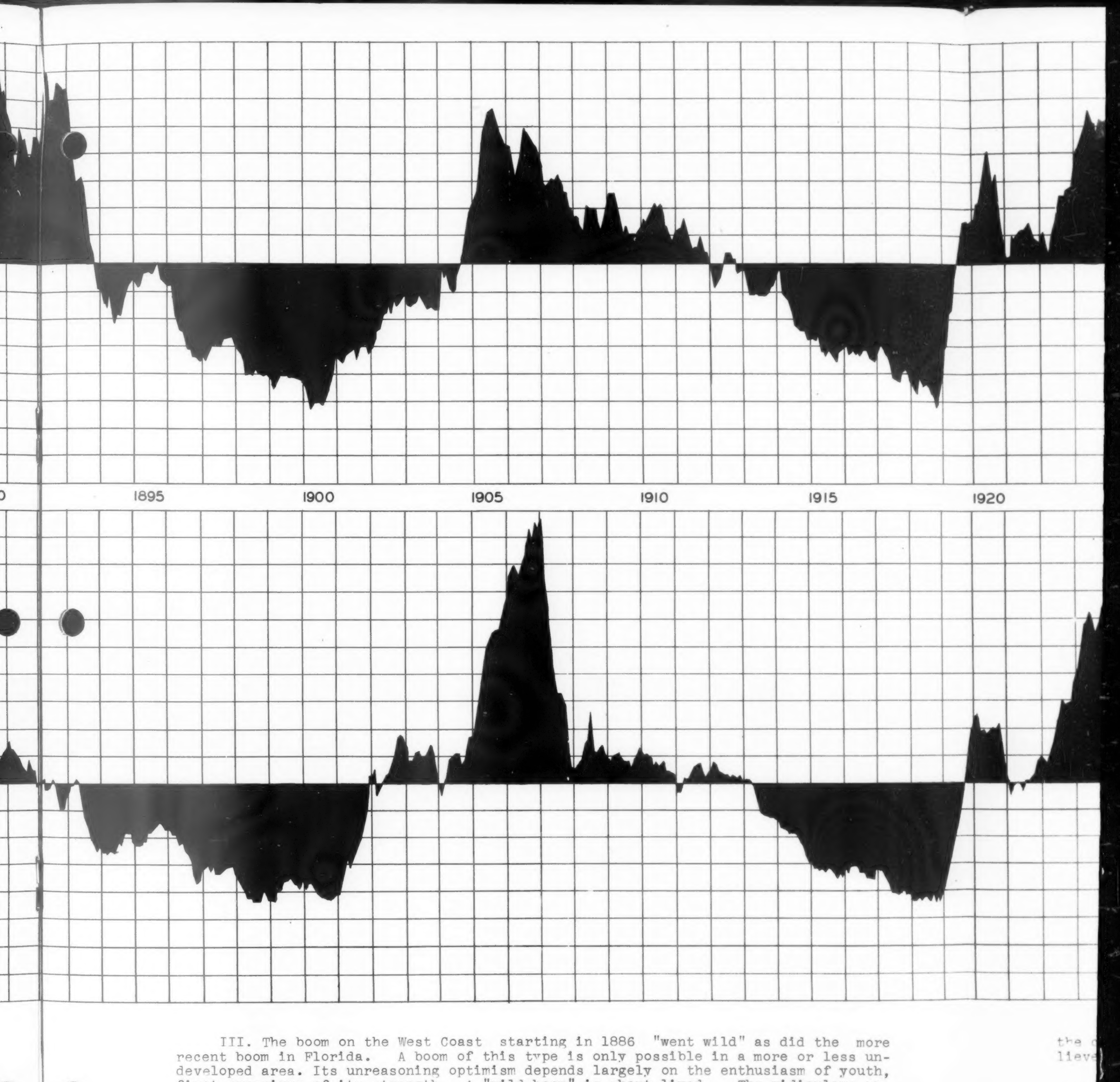
(continued on page 364)

*Real Estate Analysts, Inc., wishes to acknowledge its indebtedness to the following individuals and firms for their help in compiling basic figures for various counties on the West Coast: Dr. Lewis A. Maverick, Guaranty Title Insurance Company, Los Angeles Real Estate Board, the Recorder of Los Angeles County, the California Pacific Title and Trust Company, Thomas Magee & Sons, San Francisco Real Estate Board, Federal Reserve Bank of San Francisco, Lawyers and Realtors Title Insurance Corporation, Seattle Real Estate Board, and the Washington Title Insurance Company.

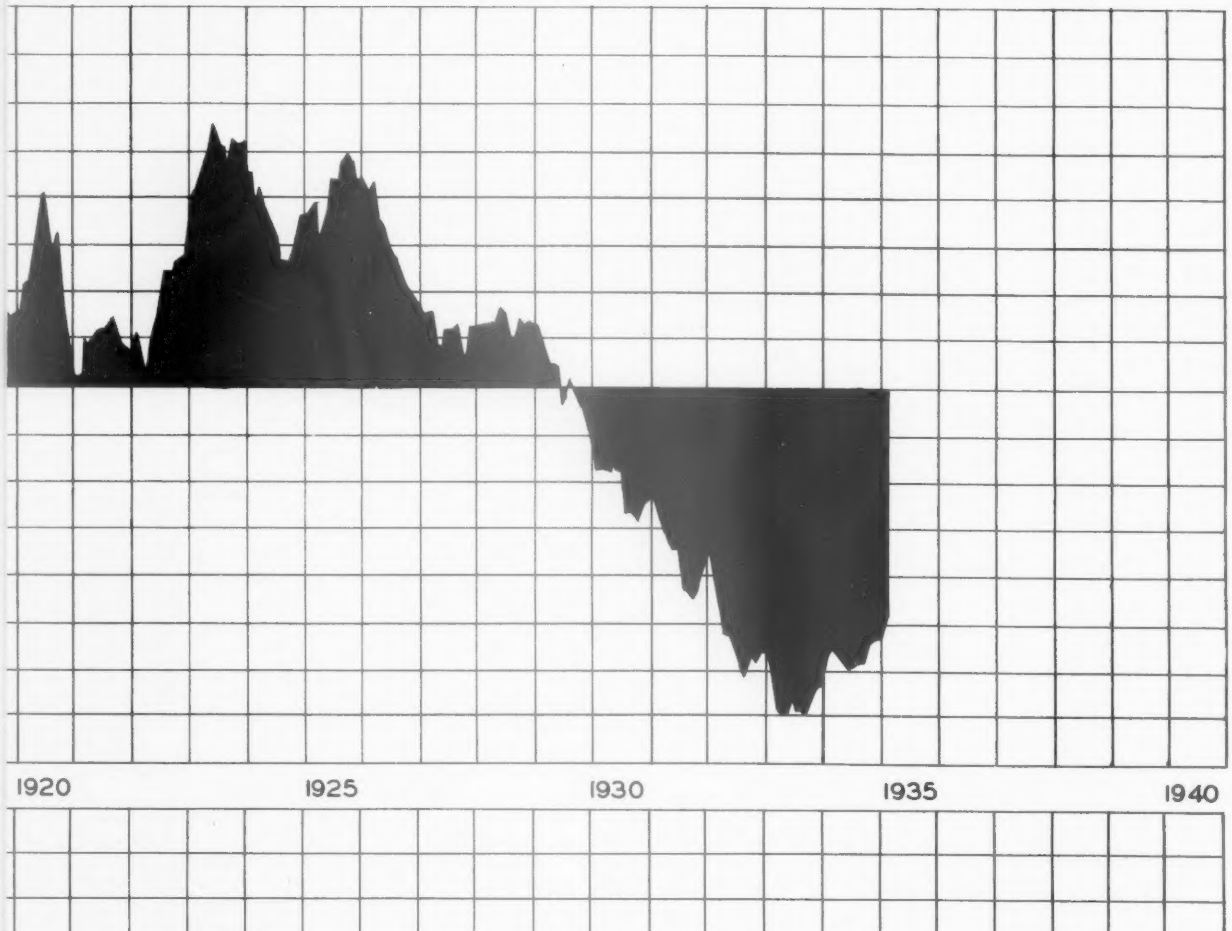


ARE REAL ESTATE CYCLES NATIONAL OR LOCAL? (continued from page 363)

II. From 1870 to 1885 real estate activity was less on the West Coast than it was in Saint Louis. This is particularly noticeable in the length of time it took to pull out of the big depression of the seventies. This was also probably due to the change in the price of gold. By 1879 gold was back at the official price of $20.67 an ounce. The purchasing power of the California gold output dropped materially during this period, retarding business to a greater extent than the retardation in Saint Louis.

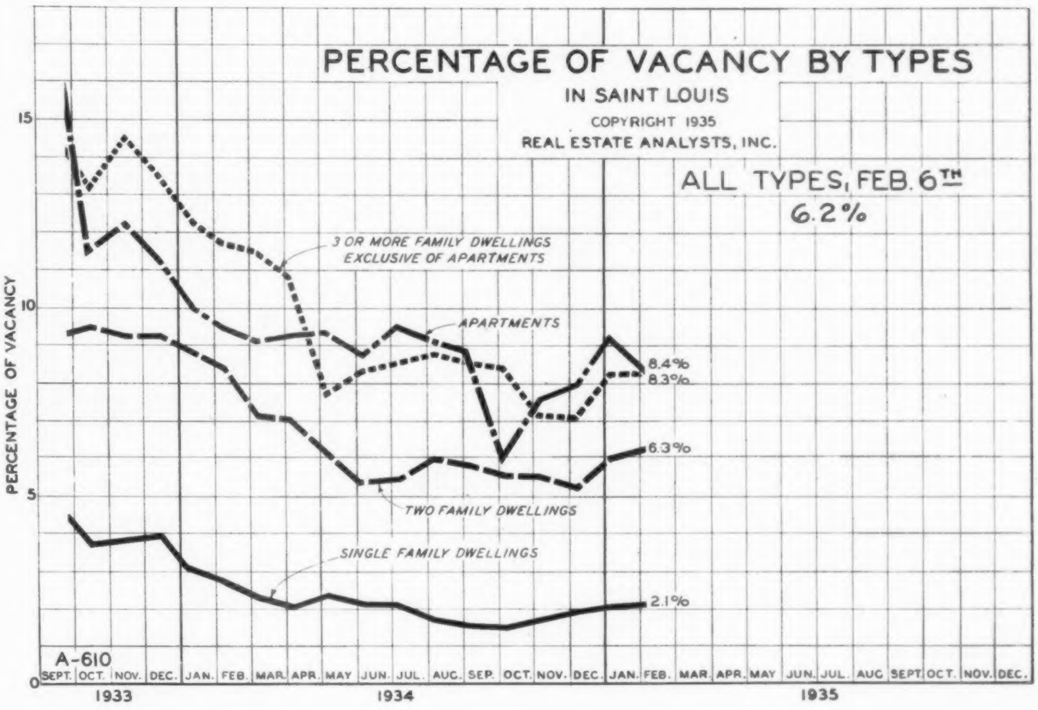


III. The boom on the West Coast starting in 1886 "went wild" as did the more recent boom in Florida. A boom of this type is only possible in a more or less undeveloped area. Its unreasoning optimism depends largely on the enthusiasm of youth, first conscious of its strength. A "wild boom" is short lived. The ridiculous extremes soon become apparent to enough people who endeavor to unload their holdings at fabulous prices, and the boom collapses. It will be noticed that, as the West Coast grew into a more developed territory, the tendency for booms to run wild gradually diminished until during the latter period there is little difference between



the cycles on the Pacific Coast and in Saint Louis. We are inclined to believe that this greater similarity will continue in the future.

The similarities in these two charts are more striking than their differences. The fact that territories as dissimilar as the two charted should develop booms and depressions of so similar a pattern is sufficient proof that real estate cycles are more national than local in their cause.



DURING January there was no change in residential vacancy in Saint Louis. We have not yet received figures from any other city, so we do not know whether this was typical or not of the national picture during the month. We are inclined to believe, however, that it is, and that absorption of vacancy will be slow during the balance of the winter.

The number of vacant units in Saint Louis by months since the introduction of the monthly vacancy survey by Real Estate Analysts, Inc., is shown in the following table.

Month	Vacancy	%	Absorption
September '33	23,354	10.4	894
October	22,460	10.0	2,010
November	20,450	9.1	-900
December	21,350	9.5	1,102
January '34	20,248	9.1	1,598
February	18,650	8.3	1,100
March	17,550	7.8	900
April	16,650	7.4	1,950
May	14,700	7.5	1,200
June	13,500	6.0	-500
July	14,000	6.3	0
August	14,000	6.3	400
September	13,600	6.1	1,100
October	12,500	5.6	400
November	12,100	5.4	0
December	12,100	5.4	-1800
January '35	13,900	6.2	0
February	13,900	6.2	
Absorption in seventeen months			9,454

In addition to the monthly figures above, we know that in November, 1932, residential vacancy totaled 28,207 units, or 12.8%. Vacancy has been reduced since then by 14,305 dwelling units.

WHAT EFFECT HAS TITLE I OF THE NATIONAL HOUSING ACT HAD ON THE VOLUME OF ALTERATION AND REPAIR WORK IN THE UNITED STATES?

THE chart below was prepared especially to answer this question. It is based on the dollar totals from the building permit figures in all principal cities, corrected for changes in the cost of modernizing and repair work and adjusted for seasonal variation. The resulting figures were charted as percentages of the 1929 level.

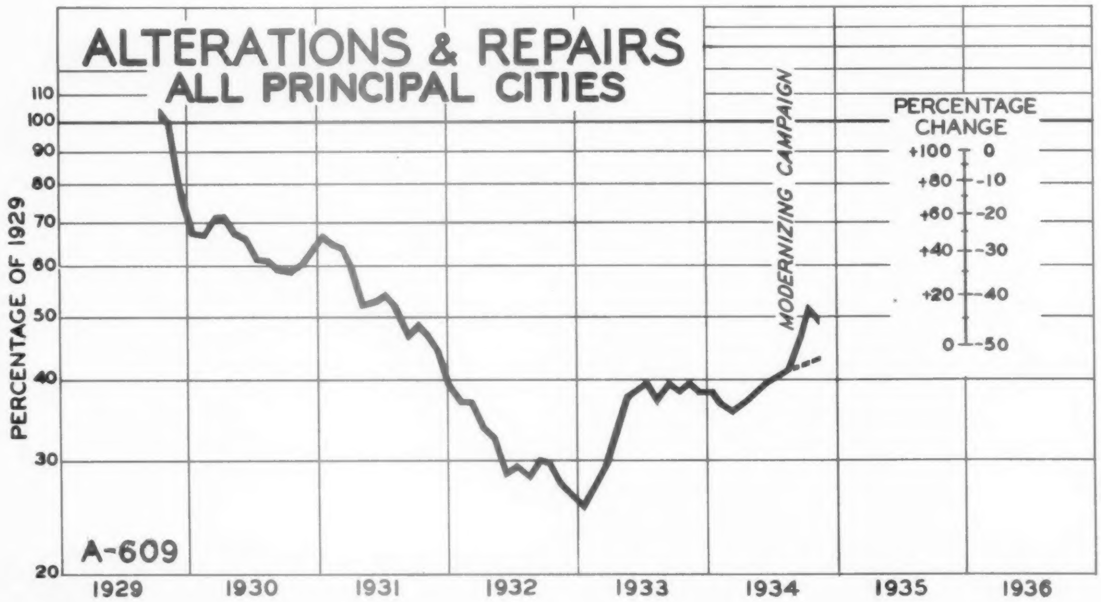
Since the original figures were adjusted for changes in cost, the charted line should show the amount of work permitted each month rather than the dollar cost which is affected materially by changes in material prices and labor rates.

We realize that much of the modernizing and repair work does not appear in the permit figures, as the jobs are too small to require a permit. This has always been true. We are using these figures only as an index of the relative volume.

It is quite interesting to note that in January, 1933, the volume of this type of work in the United States was only slightly more than one-fourth of the volume in 1929. During the next six months it increased by fifty-six per cent without any external stimulation of any kind. After a slight drop last spring it again started increasing at a fairly rapid rate. With the provisions of the Federal Housing Act becoming effective in August of last year, some further acceleration can be seen in the line. The advance over the trend (shown by the dotted line) during the past few months figures about sixteen per cent. In other words, it looks as if Title I of the Act, with the modernizing campaigns throughout the country, has actually increased the volume by about this amount.

Of course, an increase of only sixteen per cent is disappointing to many who believed that much could be accomplished by a campaign of this sort. Drew Pearson and Robert S. Allen point out that it cost the Federal Housing Administration more than five per cent of all loans made under its provisions, for "publicity and propaganda". We are not disappointed. By referring back to the May, June, July, and September issues of 1934 you will see that the Real Estate Analyst has never thought that this campaign could add much to the regular volume of this work. We are quoting below from page 282 of the July, 1934 Real Estate Analyst to show how closely our prediction has been fulfilled during the past six months.

> We understand that this is to be a "high pressure" campaign with state chairmen, local chairmen and committees of local citizens to create popular appeal. Jas. A. Moffett, Housing Administrator, made the statement to the press that the modernizing program would put five million men to work. Many "high pressure" modernization campaigns in the past have apparently succeeded because of two factors: 1 - during the campaign careful totals were kept of all work done and in a short time



these totals rose to impressive heights. Critical inspection of many of these cases, however, has convinced us that much of the work for which the campaign got credit was normal maintenance and repair work which would have been done on the same scale, but unreported, had there been no campaign. 2 - A short campaign of this sort naturally moves forward some work, concentrating in three months, for instance, work which would normally be done during a six months period. Whether a campaign over a longer period can sustain interest and move forward enough work by a period of years is subject to grave doubt. We therefore seriously question the effectiveness of these provisions of the Act in stimulating any great amount of additional employment. We believe that it will be possible to compile figures for maintenance and repair work for the next year and a half which will sound quite convincing to one not acquainted with the regular volume of this work.

AVERAGE ADVERTISED RESIDENTIAL RENTALS IN PRINCIPAL AMERICAN CITIES DURING JANUARY, 1935

THE Real Estate Analyst computes the average advertised rentals of residential units of various types and sizes each month in the twenty-five following metropolitan cities. The figures given below are averages for each city of all units of each type, large and small.

City	Single Family	Apt. (Heated)	City	Single Family	Apt. (Heated)
Atlanta	$ 5.66	$ 8.42	Minneapolis	$ 4.89	$ 8.89
Baltimore	4.86	10.83	New Orleans	4.87	8.23
Birmingham	4.43	8.36	New York	12.20	17.29
Boston	6.04	9.55	Omaha	4.69	10.30
Chicago	7.99	11.68	Philadelphia	5.38	13.66
Cincinnati	7.66	10.70	Pittsburgh	6.29	8.81
Cleveland	6.93	8.43	Richmond	5.82	
Columbus	5.31	9.01	Saint Louis	5.72	8.62
Denver	4.89	9.70	Salt Lake City	4.44	9.22
Detroit	5.73	9.60	San Francisco	7.15	11.36
Houston	6.44	8.68	Seattle	5.02	10.10
Los Angeles	8.43	10.23	Tulsa	5.85	
Milwaukee	6.94	9.32			

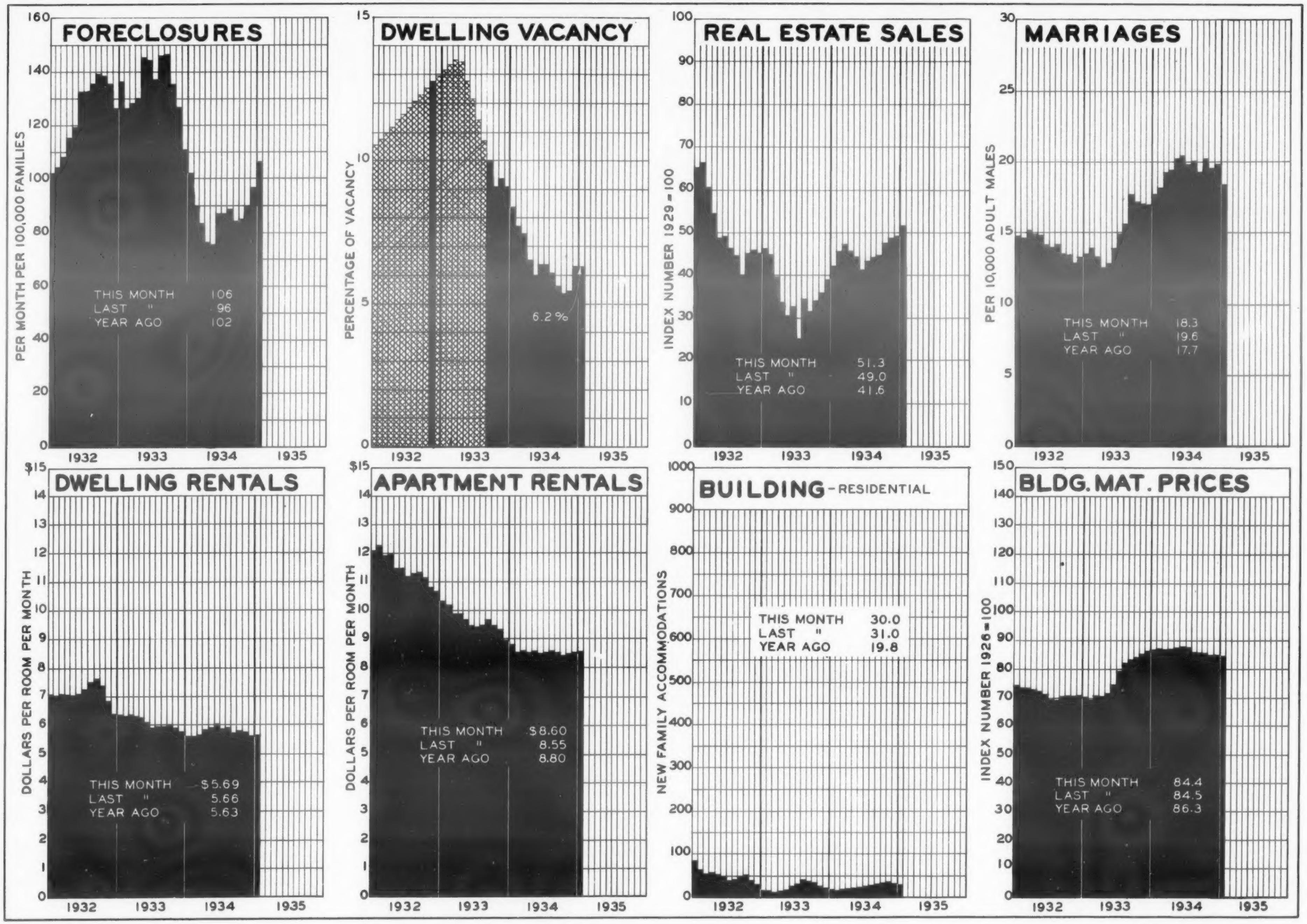
SALES POLICY FOR REAL ESTATE

A large holder of real estate has asked our advice regarding the policy to be followed during the next few years. Because of certain legal limitations, this company must dispose of some of its real estate holdings as rapidly as possible. It has divided its properties into three groups: the good, the medium, and the poor from the standpoint of earning power and desirability. Should this company sell its poor properties on this market and hold the medium and good ones for better prices several years from now? Or should it sell the better properties and hold the poor ones? The policy they have been following is the first.

We are not at all certain, however, that the second policy would not result in a greater profit eventually for the following reasons.

A poor property, because of the general pessimistic outlook on investments, cannot be sold today except at a sacrifice price far below the ordinary level for property of its type. While there is no doubt of the fact that desirable property will increase faster in the early part of the boom, we believe that as the boom psychology again dominates the buyer he will buy, as he has in the past, for resale without any regard to the real worth or earning power of the property. This attitude during a boom carries up the price of worthless properties with the prices of properties having real utility. If the policy is maintained of holding on to undesirable pieces, it will be necessary to hold them for a much longer period, as only toward the later part of a boom does this foolish attitude toward real estate develop.

Of course, if it were possible for this company to hold on to all real estate good, bad, and indifferent during the next few years, all of it could be sold for much higher prices than the present market will bring. This would be the best policy to pursue if it could be done.


FORECLOSURES
PER MONTH PER 100,000 FAMILIES
THIS MONTH 106
LAST " 96
YEAR AGO 102
DWELLING VACANCY
PERCENTAGE OF VACANCY
6.2%
REAL ESTATE SALES
INDEX NUMBER 1929 = 100
THIS MONTH 51.3
LAST " 49.0
YEAR AGO 41.6
MARRIAGES
PER 10,000 ADULT MALES
THIS MONTH 18.3
LAST " 19.6
YEAR AGO 17.7
DWELLING RENTALS
DOLLARS PER ROOM PER MONTH
THIS MONTH $5.69
LAST " 5.66
YEAR AGO 5.63
APARTMENT RENTALS
DOLLARS PER ROOM PER MONTH
THIS MONTH $8.60
LAST " 8.55
YEAR AGO 8.80
BUILDING - RESIDENTIAL
NEW FAMILY ACCOMMODATIONS
THIS MONTH 30.0
LAST " 31.0
YEAR AGO 19.8
BLDG. MAT. PRICES
INDEX NUMBER 1926 = 100
THIS MONTH 84.4
LAST " 84.5
YEAR AGO 86.3
1932
1933
1934
1935